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Mercantile Stores Company, Inc.

Annual Report

Twelve Months Ended

January 31st

1947

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
LINDSAY BRADFORD
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
FREDERICK H. MESERVE
GERRISH H. MILLIKEN
MINOT K. MILLIKEN
ROGER MILLIKEN

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*
HAROLD W. JOCKERS, *President*
A. D. CHURBUCK, *Vice-President*
W. A. JONAS, *Vice-President*
FREDERICK H. MESERVE, *Vice-President*
MORGAN A. CASEY, *Treasurer*
ASHTON HAWKINS, *Secretary*
E. F. FLANIGAN, *Controller*

Stock Transfer Agent
THE NEW YORK TRUST COMPANY
New York

Registrar of Stock
CITY BANK FARMERS TRUST COMPANY
New York

Stores Owned by

MERCANTILE STORES COMPANY, INC.

Principal Stores

J. Bacon & Sons	Louisville, Ky.
The Castner-Knott Dry Goods Co.	Nashville, Tenn.
Duluth Glass Block Store Company	Duluth, Minn.
The Fair Store Company	Cincinnati, Ohio
Hennessy Company	Butte, Mont.
The Jones Store Co.	Kansas City, Mo.
The Joslin Dry Goods Company	Denver, Colo.
The Lazarus Store, Inc.	Wilkes Barre, Pa.
The Lion Dry Goods Company	Toledo, Ohio
The MacDougall & Southwick Company	Seattle, Wash.
The McAlpin Company	Cincinnati, Ohio
Montgomery Fair Co.	Montgomery, Ala.
The People's Store Company	Tacoma, Wash.
Root Dry Goods Company	Terre Haute, Ind.
Thomas C. Watkins Limited	Hamilton, Ont., Can.
J. B. White & Co.	Augusta, Ga.
J. B. White & Co.	Greenville, S. C.

Other Stores

28 Junior Department Stores

63 Appliance Stores

●

Represented in the markets by

WM. T. KNOTT COMPANY, INC.
(A wholly owned subsidiary company)
128 W. 31st Street, New York, N. Y.
756 South Broadway, Los Angeles, Calif.
180 W. Adams Street, Chicago, Ill.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware,
April 18, 1947

To the Stockholders of
Mercantile Stores Company, Inc.:

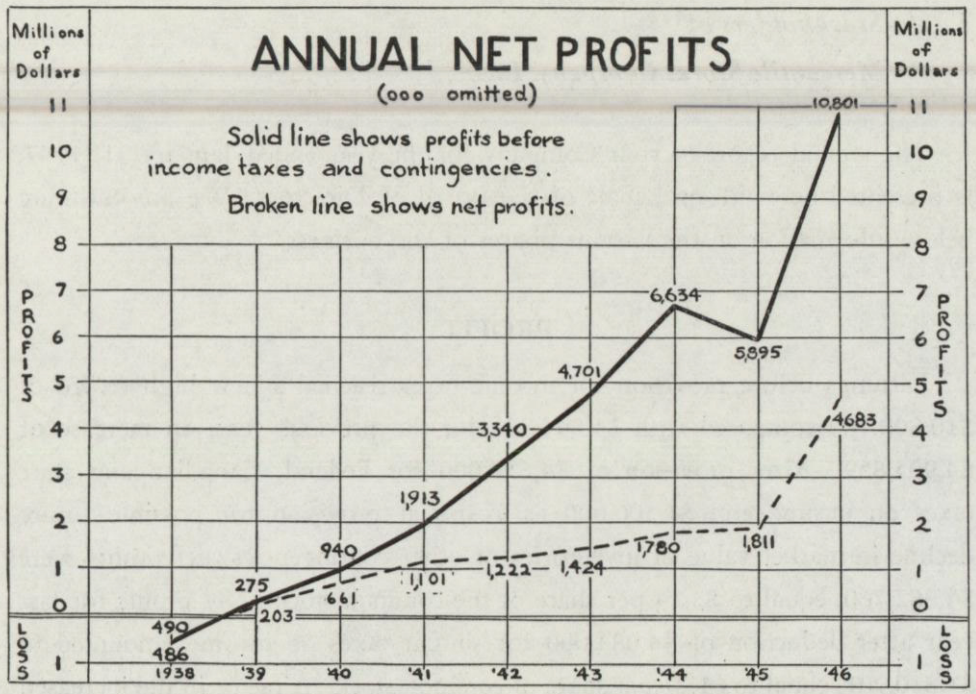
The annual report of your Company for the year ended January 31, 1947, is presented herewith on behalf of the Board of Directors. We are outlining below information on the various phases of the business.

PROFIT

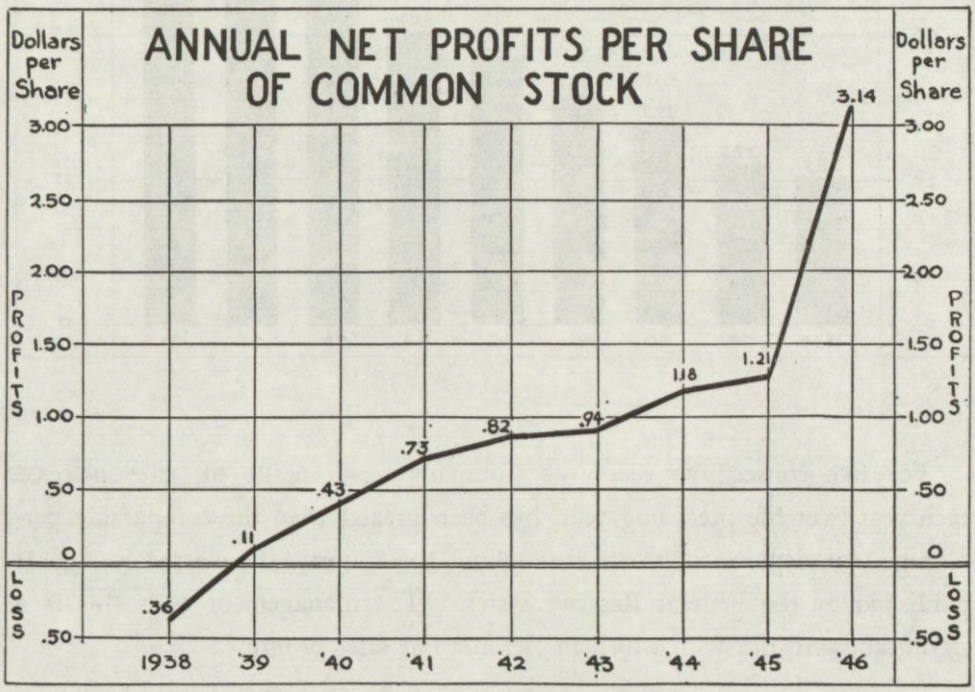
Earnings before provision for income taxes reached a new high record of $10,800,760 compared with $5,894,901 for the previous year, an increase of $4,905,859. After provision of $4,618,000 for Federal, Canadian and state taxes on income and $1,500,000 as a special provision for possible future decline in market value of inventories or other contingencies, net profits were $4,682,760, equal to $3.14 per share of the common stock. Net profits for last year after deduction of $4,084,000 for similar taxes on income amounted to $1,810,901, equal to $1.21 per share of common stock. A factor in the increased profit was the substantially lower amount for repairs which, for the current year, was $682,427 against $2,137,526 for the preceding year. In addition, the Company made capital expenditures of $2,293,299 for new fixtures and building improvements during the current year. During the past five years, we have spent for this purpose $5,003,474.

The increased sales volume of the past few years has had a tendency to lower the expense ratio of most merchandising businesses. This tendency has been accelerated in our business by a very careful control of expense, and for the past few years we have operated at a very satisfactory expense ratio. However, because we have added considerably to our fixed expenses, it will be necessary for us to get a substantial sales increase this year in order to maintain that ratio.

The profits before income taxes and the final net profit for each of the last nine years are compared in the following chart:

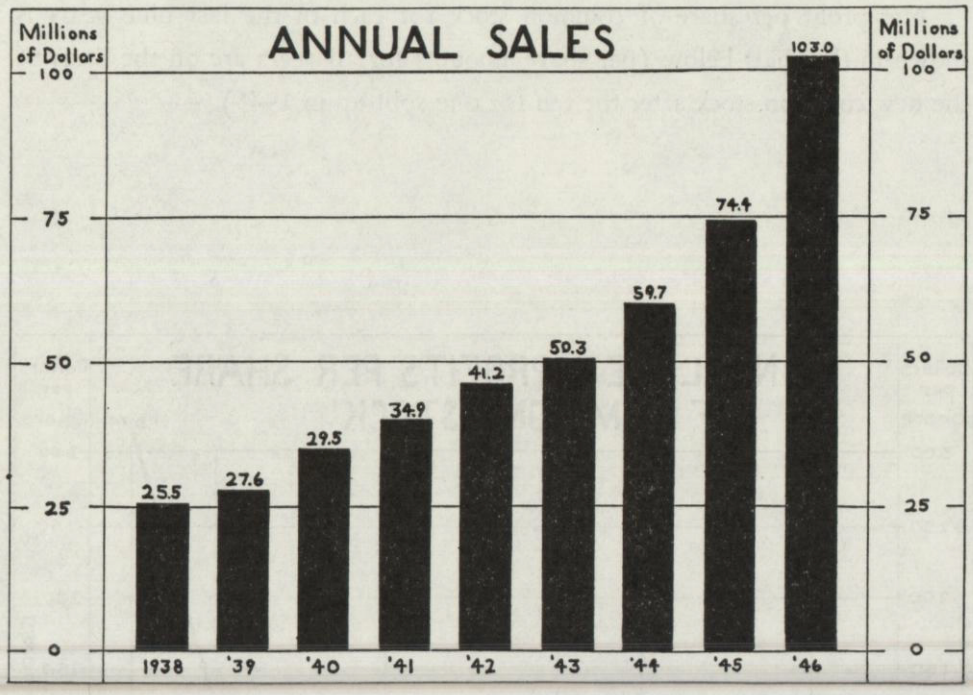


Net profit per share of common stock for each of the last nine years is shown in the chart below (per share amounts for all years are on the basis of the new common stock after the ten for one split-up in 1945).



SALES

Sales for the year amounted to $103,007,184 compared with $74,407,149 for the preceding year, an increase of 38.4%. The sales for the Company have shown a steady growth for the last nine years, and were over four times as large for the current year as they were nine years ago. The chart at the top of the next page shows the sales growth during the past nine years.



For five consecutive years the Company's percentage of sales increase each year over the preceding year, has been greater than the comparable percentages for department stores throughout the country as reflected in figures published by the Federal Reserve System. The management feels this is a significant yardstick with which to measure our sales progress.

Sales for February and March of 1947 were 14.5% ahead of the same period last year.

DIVIDENDS

The Company paid $1.00 per share in dividends on the common stock during the year ended January 31, 1947. In the preceding year the Company paid the equivalent of 25¢ per share (recognizing the stock split-up of ten for one made in December, 1945). The Company also paid the regular dividend on the preferred stock during the current year. The total dividends paid amounted to $25,676 on the preferred stock and $1,481,220 on the common

stock. In the preceding year the total dividends on both classes of stock amounted to $395,981. The following table gives the dividends and earned surplus for the past nine years:

Year Ended January 31	*Preferred ($7.00 per share)*	*Common*		*Earned Surplus at End of Year*
		Amount	*Per Share*	
1947	$25,676	$1,481,220	$1.00	$8,659,080
1946	25,676	370,305	.25	5,483,216
1945	28,451	370,305	.25	4,068,296
1944	36,176	368,930	.25	2,687,111
1943	37,133	361,255	.25	1,668,102
1942	40,187	290,444	.20	844,871
1941	41,732	289,612	.20	74,726
1940	42,504	—	—	*255,372**
1939	46,907	—	—	*415,455**

*Italics denotes deficit.

EXPANSION

In our report of last year we described our Company policy on opening new stores. During the current year this policy was continued and junior department stores were opened in Pittsburg, Kansas; Opelika, Alabama; Mount Vernon, Washington; Lakewood, Colorado; and Orangeburg, South Carolina. These stores were opened at various dates during 1946 and are operating currently at approximately $2,325,000 annual volume for these five stores. Also, the Company opened 14 small appliance stores during the year.

The new department store in Greenville, South Carolina, which was opened in October, 1945, under the name of J. B. White & Co., is developing satisfactorily.

Your Company now operates seventeen major department stores, twenty-eight junior department stores and sixty-three small stores selling major appliances.

Our experience with the junior department stores and appliance stores has continued to be satisfactory and the management believes this is a profitable and sound expansion program. During the year your Company borrowed various sums from banks on a short-term basis. These loans were all repaid before the end of the year, so the expansion was accomplished without addi-

tional borrowing existing at the end of the year. Our buying and management facilities are such that additional small stores can be added with a minimum increase in general overhead expense.

The Company plans to continue the opening of additional junior department stores during the coming year and leases have been signed for six new stores.

INVENTORY

Total inventories at January 31, 1947 amounted to $18,632,200 compared with $11,116,080 at the end of the previous year. A part of the increase in inventory represents inventories in newly opened stores, but inventories in all stores were substantially higher. Inventory turnover for the year just closed was 5.9 times compared with 6.4 times for the previous year. Two tenths of one per cent, or $34,167 was more than one year old, as compared with two tenths of one per cent, or $18,906 for last year. At the end of the year 5.6 per cent, or $1,047,705, of the inventory was over six months old. It is evident from these figures that we have not accumulated any large quantities of old merchandise. During the last few months of the year, we took substantial price reductions. In spite of the fact that only a small portion of our inventory is over six months old, and our purchase commitments are substantially under last year, $7,032,879 against $12,871,400, the management thinks it advisable to set up an inventory and contingency reserve of $1,500,000. The market is constantly changing, and we feel that there will be many adjustments necessary on merchandise which, while currently acceptable, may subsequently be replaced by newer and better quality merchandise. In fact, price reductions for the first two months of this year have been considerably in excess of last year, and we think the necessity for relatively heavy reductions will continue for the greater part of the coming year.

SALES VOLUME OF OUR STORES

For the year just closed the sales of our largest store amounted to over $15,000,000. The next seven large stores were in the $5,000,000 to $10,000,000 group and nine of the department stores were in the $2,000,000 to $5,000,000 classification.

Sales of a majority of the junior stores ranged between $250,000 and $500,000 with one store above $1,000,000.

The average sales per store of the 63 small appliance stores was $75,000.

BONUS AND PENSION PLANS

The Bonus Plan of the Company (which operates entirely separately from the Pension Plan) was installed in 1941 and, in the opinion of the management, continues to be of real and increasing value in the operation of the Company. The principle of additional remuneration to employees in direct proportion to the additional profit of the department or other section of our business, for which the employee is responsible, has been one of the important factors in the progress of the Company. Under the plan, bonuses amounting to $2,002,290 were paid to 981 people for the current year.

You were informed of the details of our Pension Plan in the last Annual Report. The Company's contribution to that plan during the past year was $146,640, which amount has been paid over to the Trustee.

YOUR STOCK LISTED ON NEW YORK STOCK EXCHANGE

During 1946 the Company registered the common stock with the Securities and Exchange Commission, and the stock was admitted to listing on the New York Stock Exchange. Formerly, the stock was traded in on the New York Curb Exchange.

During the past year, a group of our stockholders sold 271,250 shares of the Company's common stock. The number of common stockholders in our Company increased during the year from approximately 500 to the present figure of slightly over 2800.

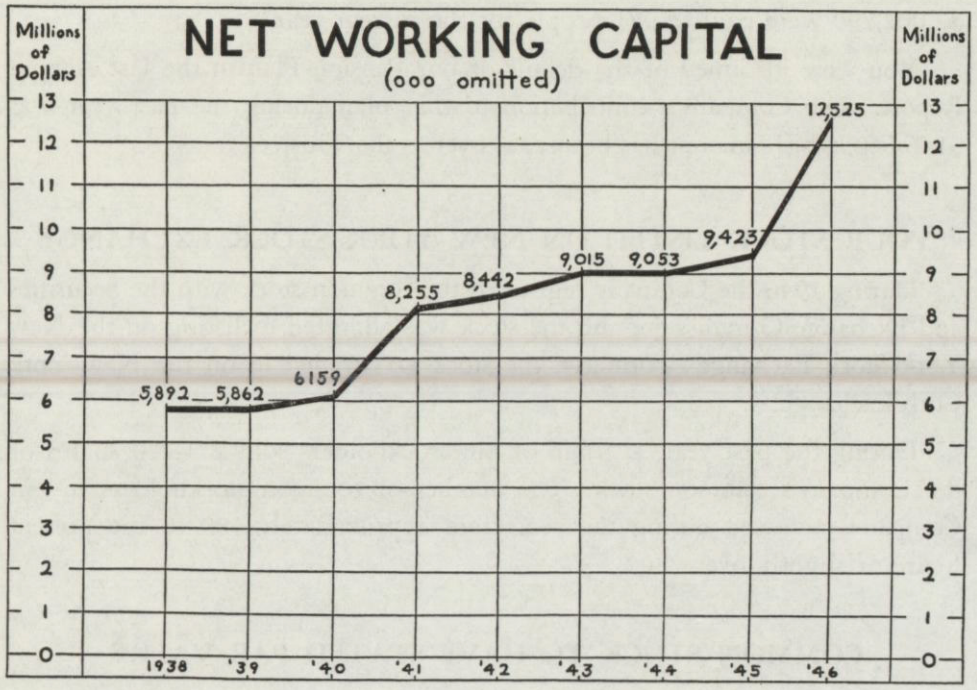
COMMON STOCK TO HAVE STATED PAR VALUE

Your Board of Directors has adopted a resolution, proposing to amend the Certificate of Incorporation so as to change the existing common stock without par value to a par value stock having $3.66⅔ per share of par value. A special meeting of stockholders has been called to vote on this change. The special meeting will be held on the same day as the regular annual meeting of stockholders. If the proposed amendment is adopted, the new par value stock will be exchangeable share for share for the existing no par stock.

The present no par stock has been stated in the balance sheet at $3.66⅔ per share, so there will be no difference, after the change, in the presently existing number of shares, no change in the surplus or other accounts of the Company, and no proceeds to the Company as a result of such change. This will result in materially reducing transfer taxes which are incurred by our stockholders whenever they choose to sell our stock.

VARIOUS

The ratio of current assets to current liabilities on January 31, 1947, was 1.9 to 1 compared with 2.2 to 1 for the preceding year. The working capital of the Company was increased from $9,423,489 a year ago to $12,525,310 during the current year. The working capital at the end of each year for the past nine years is shown below:



The amount of earned surplus was increased during the year from $5,483,216 to $8,659,080.

The management believes that accounts receivable are in a satisfactory condition. Reserves for doubtful accounts are adequate.

The management desires to express its appreciation for the loyalty and cooperation of the Company's employees.

Respectfully submitted,

F. G. KINGSLEY,
Chairman of the Board.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND EARNED SURPLUS

For the Year Ended January 31, 1947

STATEMENT OF CONSOLIDATED PROFIT AND LOSS

Net sales, including sales of leased departments		$103,007,184
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $710,238		92,604,094
Net operating profit		$ 10,403,090
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net)		431,813
		$ 10,834,903
Deduct—Interest expense		34,143
Profit before taxes based on income		$ 10,800,760
Provision for taxes based on income:		
Federal income tax	$4,274,000	
State and Canadian taxes	344,000	4,618,000
Net profit before special provision		$ 6,182,760
Provision for possible future decline in market value of inventories and other contingencies		1,500,000
Net profit for the year		$ 4,682,760

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1946		$ 5,483,216
Net profit for the year ended January 31, 1947		4,682,760
		$10,165,976
Dividends declared:		
Preferred stock—$7.00 per share	$ 25,676	
Common stock—$1.00 per share	1,481,220	1,506,896
Balance, January 31, 1947		$ 8,659,080

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AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:

Cash		$ 2,668,226
Accounts receivable—		
Customers—		
Regular retail terms	$3,929,253	
Installment terms, including installments maturing after one year	231,150	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $2,224,628)	223,455	
Due from suppliers, etc.	1,019,113	
	$5,402,971	
Less—Reserves for doubtful accounts	773,130	4,629,841
Merchandise inventories, priced at the lower of cost or market, as determined by the retail inventory method, except for merchandise in transit which is priced at cost		18,632,200
TOTAL CURRENT ASSETS		$25,930,267

Other Assets:

U. S. Government securities deposited in escrow as guarantees of performance under leases, at cost	$ 177,474	
Post-war refund of Canadian excess profits taxes	88,000	
Miscellaneous securities, at cost or less	3,147	268,621

Fixed Assets:

Land and buildings owned, buildings on leased ground and leaseholds, and building improvements (property of a net book value of $229,593 is pledged to secure performance under a lease), at cost, less reserve for depreciation of $3,436,171	$5,144,385	
Store fixtures, etc., at cost, less reserve for depreciation of $1,578,673	3,799,679	8,944,064

Unexpired Insurance Premiums, Prepaid Rent, etc.	679,625
	$35,822,577

RES COMPANY, INC.

corporation)

COMPANIES

SHEET – JANUARY 31, 1947

LIABILITIES

Current Liabilities:

Accounts payable			$ 5,375,156
Accrued taxes (other than Federal income), salaries, rent, etc.			3,164,076
Reserve for Federal income and excess profits taxes, subject to review by U. S. Treasury Department			4,855,725
Current maturities of mortgage notes payable to banks			10,000
TOTAL CURRENT LIABILITIES			$13,404,957
Mortgage Notes Payable to Banks, due $5,000 semiannually until June 30, 1953 when remaining balance becomes due (less current maturities shown above)			105,000
Deferred Carrying Charges on Installment Accounts			97,966
Reserve for Possible Future Decline in Market Value of Inventories and Other Contingencies			1,500,000
Capital Stock and Surplus:			
Capital stock—			
Preferred stock, 7% cumulative, $100 par value, callable at $105 per share—			
Authorized and issued, 10,410 shares	$1,041,000		
Less—Held in treasury, 6,742 shares (cost, $618,217)	674,200		
Outstanding, 3,668 shares		$ 366,800	
Common stock, no par value, stated value, $3.66⅔ per share—			
Authorized and issued, 1,582,380 shares	$5,802,060		
Less—Held in treasury, 101,160 shares (cost, $200,414)	370,920		
Outstanding, 1,481,220 shares		5,431,140	
Surplus prior to February 1, 1935 (no change during year)		6,257,634	
Earned surplus since February 1, 1935		8,659,080	
(Surplus of $818,631 is restricted by reason of purchase of treasury stock until such stock is sold or canceled)			20,714,654
			$35,822,577

AUDITORS' REPORT

To the Board of Directors,
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1947, and the statements of consolidated profit and loss and earned surplus for the year ended that date. In connection therewith, we have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and earned surplus present fairly the position of the companies at January 31, 1947, and the results of their operations for the year ended that date and are in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
April 10, 1947.